A guide to Roth 401(k) contributions

A Roth 401(k) may add tax diversification and flexibility to your retirement savings plan. Read on to find out.

A Roth 401(k) offers you another option to save for retirement with after-tax contributions. But how does it differ from traditional pretax 401(k) contributions? The most obvious difference is when you pay Federal Income tax.

1. **Making pretax contributions can lower your current taxable income.** When you save with pretax contributions, your taxable income is reduced dollar for dollar which may impact the current federal income tax you pay today. Contributions and any investment earnings, however, are taxed as ordinary income when you receive a distribution from your plan account, typically at retirement.
2. **Making Roth 401(k) contributions can result in tax-free distributions in retirement.** Since Roth 401(k) contributions are made with after-tax money, qualified distributions of your contributions, and any earnings on those contributions, are generally income tax free.

Are Roth 401(k) contributions right for you?

It's a smart idea to understand the features, requirements and restrictions of Roth 401(k) contributions before you decide which option is right for your situation. While this flyer is designed to give you a good overview, you also might want to consider consulting with an independent tax advisor, to evaluate the impact Roth 401(k) contributions might have on your long-term savings strategy.

Your options at a glance

As part of your retirement savings plan, you are permitted to make after-tax Roth 401(k) contributions, pretax 401(k) contributions or a combination of both types to save for your future. This quick comparison chart can help you weigh your options.

	Pretax 401(k) contributions	After-tax Roth 401(k) contributions
Tax treatment of contributions	Contributions are free from federal income tax and, if applicable, generally state and local income taxes.	Contributions are taxed when made.
In-service distribution requirements	If the plan permits, at age 59½ or for hardship as defined under the plan.	If the plan permits a qualified distribution may be taken, at age 59½ or older (or upon your death or disability) AND when Roth 401(k) contributions have remained invested for at least a 5-taxable-year period, beginning with the year of first Roth 401(k) contribution.
Tax treatment of in-service distributions	Contributions and investment earnings are taxed as ordinary income when withdrawn.	Withdrawals of contributions and investment earnings are tax-free when Roth 401(k) qualified distribution requirements are met. Company match or profit sharing contributions and related earnings are taxed as ordinary income.
Early distribution penalties and tax consequences	If you have not reached age 59½, a 10% premature distribution penalty tax will apply unless an exception applies. Plus ordinary income taxes on contributions and investment earnings as well as employer contributions and related earnings.	If you have not reached age 59½ a 10% premature distribution penalty tax will apply unless an exception applies. Plus ordinary income taxes will be applied to all investment earnings, company match or profit sharing contributions.
Direct rollovers permitted with no taxes due	To an IRA or other employer qualified retirement plan.	To a Roth IRA or other employer qualified retirement plan that permits ongoing designated Roth 401(k) contributions and that permits such rollovers into the plan.
You might want to consider this option if	You anticipate being in a lower tax bracket when you retire.	You anticipate being in the same or higher tax bracket when you retire.

Are the 401(k) contribution limits the same for both after-tax and pretax contributions?

Yes. You can choose to make pretax contributions, Roth 401(k) contributions, or a combination of both not to exceed the annual IRS contribution limit. If the plan permits catch-up contributions and you are age 50 or older, you may contribute an additional amount over and above the annual IRS contribution limit. Visit Voya.com/IRSLimits to review this year's limits.

Can you transfer Roth 401(k) contributions into a pretax account?

No, you are not permitted to transfer money from your after-tax Roth 401(k) to a pretax account. Some plans permit what is called an in-plan Roth 401(k) conversion where you can transfer the non-Roth portion of the 401(k) account to a designated Roth account. The pre-tax amount that is converted is taxable in the year the conversion occurs. You will need to check with your plan to see if this is permitted.

How do your Roth 401(k) contributions affect company matching contributions?

Roth 401(k) contributions are eligible for company matching contributions if offered, however, all company matching contributions are made on a pretax basis. As a result, your employer's contributions and any investment earnings on those contributions will be subject to ordinary tax at withdrawal as well as the 10% premature distribution penalty tax if you have not reached age 59½ at the time of the distribution.

Can you invest Roth 401(k) contributions differently than your pretax contributions?

Generally no; they must be directed into the same investment option(s).

Do you need to set up a separate 401(k) account for Roth 401(k) contributions?

No. Think of Roth 401(k) contributions as a separate "bucket" of money in your plan account. Pretax contributions are one bucket, company matching contributions are another and Roth 401(k) contributions are yet another. Your money is held separately in each bucket, but all are in the same 401(k) account within your retirement savings plan.

Can you borrow from your Roth 401(k) account?

Yes, as with pre-tax deferrals, designated Roth 401(k) contributions are available for loans if permitted by the plan.

Are Roth 401(k) funds available for hardship withdrawals?

Yes, as with pre-tax deferrals, the plan may permit withdrawal of Roth 401(k) amounts for hardship reasons; however, if the Roth 401(k) qualified distribution requirements are not met the earnings are taxable and the 10% premature distribution penalty tax will apply if you have not yet reached 59 1/2 unless an exception applies.

Can you take a withdrawal from your Roth 401(k) account while actively employed if you're over 59½?

If the plan permits you may take: a) a tax-free qualified withdrawal at age 59½; or b) a taxable non-qualified withdrawal at age 59½. See the table on page 1 for a description of both withdrawal types.

What else do you need to know?

If you have questions about Roth 401(k) contributions or your retirement savings plan, just call (800)-584-6001 to speak with a Voya® representative. Representatives are available 8 a.m. to 9 p.m. Eastern Time (except for New York Stock Exchange holidays). Or, for more information, visit your plan website at VoyaRetirementPlans.com.